

§ 1788.26

of the dishonest or fraudulent acts. This disclosure, however, need not be of the same degree required to establish a claim under a proof of loss or conviction of a false report violation.

§ 1788.26 Disbursement of recovered sums.

Sums recovered under any fidelity bond by the borrower for a loss of funds advanced under the notes or recovered by the government for any loss under such bond shall, unless otherwise directed by the mortgagees, be applied to the prepayment of indebtedness pro rata on the notes secured by the mortgage or to construct or acquire facilities, approved by the mortgagees, which will become part of the mortgaged property.

§ 1788.27 Requirements of coverage.

Workers' compensation and employers' liability insurance covering all employees of the borrower shall be maintained by borrowers in amounts required by law. If the borrower or any of its employees is not subject to the workers' compensation laws of the state, or states, in which the borrower conducts its operations, then its workers' compensation policy shall provide voluntary compensation coverage to the same extent as though the borrower and its employees were subject to such laws. The policy shall include:

(a) Occupational disease liability.

(b) Employers' liability insurance.

(c) "Additional medical" coverage of not less than \$10,000 in those states where full medical coverage is not statutory.

When employers' liability insurance is provided by a separate policy issued to a cooperative or mutual organization, it shall include "Endorsement Waiving Immunity From Tort Liability." See 1788.5(c).

§ 1788.28 Limits required.

RUS requires that public liability insurance be maintained covering the ownership liability and all operations of the borrower with limits for bodily injury or death of not less than \$1 million each occurrence—\$1 million aggregate per policy period and with limits for property damage of not less than \$1 million per occurrence and \$1 million

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aggregate for the policy period. Borrowers have the option to purchase a \$1 million single limit coverage for bodily injury and property damage. This required insurance may be in a policy or policies of insurance, primary and excess including the umbrella or catastrophe form.

§ 1788.29 Contractual liability insurance.

Contractual liability insurance shall be included as part of the public liability policy when the borrower executes an agreement or contract in which it assumes additional liability. The provisions of any "hold harmless" agreement should be referred to the borrower's insurance company for specific references in the policy.

§ 1788.30 Provision on explosives.

When explosives are used by employees of the borrower, the property damage exclusion clause for blasting shall be deleted.

§ 1788.31 Buried plant provision.

Borrowers contemplating construction of buried plant shall immediately obtain an endorsement from their insurance carrier deleting the exclusion in the standard public liability insurance policy which provides that the policy does not apply to injury to, or destruction of, wires, pipes, conduits, mains, sewers, or other similar property below the surface of the ground if the injury or destruction is caused by, or occurs during, the use of mechanical equipment for the purpose of excavating or drilling. For electric borrowers the rating classification includes this coverage automatically.

§ 1788.32 Appliance sales coverage.

When there are retail sales, repair, or installations of electrical appliances involved in borrowers' operations, borrowers shall purchase product liability damage.

§ 1788.33 Railroad right-of-way exclusion.

General liability policies in use contain a restriction pertaining to easement agreements involving construction on or adjacent to a railroad which are not automatically covered. Where